

Message Text

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ACTION EA-09

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INFO AMEMBASSY BONN

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: RELAXATION OF JAPANESE FOREIGN EXCHANGE REGULATIONS

1. SUMMARY: MINISTRY OF FINANCE (MOF) OFFICIAL CALLS FOR FURTHER RELAXATION OF JAPANESE FOREIGN EXCHANGE REGULATIONS. TRIAL BALLOON FLOATED ON PROBABLE SPECIFIC MEASURES. RECENT JAPANESE INTEREST RATE REDUCTIONS PUT YEN SHIFT BACK IN GEAR AND INTERNATIONALIZATION OF YEN BACK ON TRACK. END SUMMARY.

2. IN LENGTHY INTERVIEW APPEARING IN APRIL 25 EDITION OF WEEKLY MAGAZINE, "THE FINANCIAL ECONOMIST," MOF DIRECTOR GENERAL FOR INTL FINANCE FUJIOKA CALLED FOR FURTHER RELAXATION OF JAPANESE FOREIGN EXCHANGE CONTROLS. FULL TRANSLATION BEING PREPARED AND WILL BE FORWARDED. REGARDING JAPAN'S FOREIGN EXCHANGE CONTROLS, FUJIOKA REFERRED TO PRESENT HIGH DEGREE OF LIBERALIZATION OF

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JAPAN'S INTL TRANSACTIONS BUT POINTEDLY NOTED AS AMONG EXCEPTIONS (NOT COMPLETELY LIBERALIZED AT PRESENT) EXTERNAL BOND ISSUES BY JAPANESE ENTERPRISES AND IMPACT LOANS. HE ALSO POINTED TO RESTRICTIONS ON YEN CONVERSION IMPOSED ON AUTHORIZED FOREIGN EXCHANGE BANKS, AND STATED IT MIGHT BE DESIRABLE TO ELIMINATE YEN CONVERSION RESTRICTIONS AND UTILIZE ONLY CONTROLS ON (OVERALL) FOREIGN EXCHANGE POSITION AT SUCH TIME AS RESERVE

REQUIREMENTS ARE INSTITUTED ON FOREIGN LIABILITIES OF FOREIGN EXCHANGE BANKS. HE WENT ON TO SAY THAT IN ORDER TO REDUCE FUTURE MISUNDERSTANDING AT HOME AND ABROAD REGARDING JAPAN'S FOREIGN EXCHANGE REGULATIONS, AND TO REDUCE THE BURDEN ON PARTIES INVOLVED IN FOREIGN TRANSACTIONS, HE WOULD LIKE TO SEE A DRASTIC SIMPLIFICATION OF REQUIRED FOREIGN EXCHANGE PROCEDURES.

3. IN FOLLOWUP ON FUJIOKA ARTICLE, MOF OFFICIALS HAVE RATHER OBVIOUSLY FLOATED TRIAL BALLOON WHICH APPEARED IN NIHON KEIZAI (LEADING ECONOMIC DAILY) APRIL 27 REGARDING SPECIFICS OF POSSIBLE PROGRAM OF LIBERALIZATION OF JAPANESE FOREIGN EXCHANGE CONTROLS. AS SET FORTH IN NIHON KEIZAI, PROGRAM, WHICH IS SAID TO BE UNDER STUDY, WOULD INVOLVE SOME OR ALL OF FOLLOWING:

- (A) AN INCREASE IN THE AMOUNT OF FOREIGN EXCHANGE WHICH JAPANESE TRAVELERS CAN OBTAIN QUASI-AUTOMATICALLY, FROM THE PRESENT \$3,000, TO \$5-\$6,000 PER TRIP.
- (B) AN INCREASE IN THE AMOUNT OF PAYMENTS WHICH CAN BE MADE WITHOUT PRIOR AUTHORIZATION FOR TRANSPORTATION FARES, INSURANCE, ETC., FROM THE PRESENT \$1,000 TO \$3,000.
- (C) RELAXATION (TO UNSPECIFIED DEGREE) OF RESTRICTIONS ON LONG-TERM EXTERNAL BOND ISSUES BY JAPANESE CORPORATIONS.
- (D) RELAXATION (ALSO TO UNSPECIFIED DEGREE) OF RESTRICTIONS ON IMPACT LOANS (LONG-TERM DOLLAR LOANS TO JAPANESE RESIDENTS).
- (E) GRADUAL RELAXATION AND EVENTUAL ELIMINATION OF RESTRICTIONS ON BANKS' CONVERSION OF FOREIGN BORROWINGS INTO YEN.

4. ARTICLE IS LESS THAN CLEAR ON WHEN VARIOUS STEPS ENVISAGED MIGHT BE TAKEN. IT IS PROBABLY A FAIR READING OF ARTICLE THAT LIMITED OFFICIAL USE

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STEPS A AND B ABOVE MAY TAKE PLACE IN NEAR FUTURE (IN MAY) AND TIMING OF REST IS VAGUE.

5. FOREGOING SUGGESTS THAT RELAXATION PROGRAM WOULD BE BASICALLY DESIGNED TO PROMOTE DETERIORATION IN THE CURRENT ACCOUNT AND LARGER CAPITAL INFLOWS. PRESS NOTES, HOWEVER, THAT RELAXATION OF CONTROLS ON CAPITAL INFLOWS SHOULD NOT, GIVEN INTL INTEREST RATE DIFFERENTIALS FOLLOWING RECENT INTEREST RATE REDUCTIONS IN JAPAN, RESULT IN IN DISTURBINGLY LARGE CAPITAL INFLOWS.

6. INTEREST RATE REDUCTIONS WHICH HAVE TAKEN PLACE FOLLOWING THE APRIL 19 DISCOUNT RATE CUT, OR WHICH ARE EXPECTED TO TAKE PLACE SHORTLY, WILL ALSO TEND TO PUT THE MUCH-TOUTED YEN SHIFT BACK IN GEAR AND INTERNATIONALIZATION OF THEYEN BACK ON TRACK. IT IS ALREADY CLEAR THAT FOREIGN BORROWERS ARE AGAIN ACTIVELY SEEKING TO PLACE YEN-DENOMINATED ISSUES IN JAPAN: IN THE NEXT SEVERAL MONTHS FINLAND, FRANCE, AND IRELAND ARE EXPECTED TO PLACE ISSUES HERE. THERE ARE ALSO REPORTS THAT LDC BORROWERS ARE SHOWING INTEREST IN YEN-DENOMINATED BORROWINGS FROM JAPANESE

COMMERCIAL BANKS. FINALLY, REPORTS ARE CIRCULATING THAT YEN
LOANS TO FINANCE IMPORTS ARE NOW COMPETITIVE WITH FOREIGN
CURRENCY (DOLLAR) FINANCING.

7. COMMENT: SHOULD PACKAGE ALONG ABOVE LINES MATERIALIZE -- AND
IT SHOULD BE UNDERSCORED THAT THESE MEASURES ARE UNDER CONSI-
DERATION AND NOT AGREED -- ONE RESULT SHOULD BE HIGHLY DESIRABLE
(IN PRESENT CONTEXT) DETERIORATION IN JAPAN'S CURRENT ACCOUNT
POSITION (OTHER THINGS BEING EQUAL). JUDGMENT AS TO LIKELY
NET EFFECT OF LIBERALIZATION OF CAPITAL INFLOWS, ON ONE HAND,
AND CONTINUATION OF YEN SHIFT/INTERNATIONALIZATION OF YEN
POLICIES IN ENVIRONMENT OF LOWER INTEREST RATES IN JAPAN, ON
THE OTHER, MIGHT BEST AWAIT DECISION ON SPECIFIC LIBERALIZATION
MEASURES. HOWEVER, HIGH PROPORTION OF JAPAN EXTERNAL TRADE NOW
FINANCED IN DOLLARS SUGGESTS THERE IS LARGE POTENTIAL FOR SHIFT
TO YEN FINANCING.

SHOESMITH

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